

PHILIP MORRIS U.S.A.

INTER-OFFICE CORRESPONDENCE

120 PARK AVENUE, NEW YORK, N.Y. 10017

TO: FILE *SGH* DATE: December 7, 1992
FROM: Fran Goehl
SUBJECT: F.O.T.L. Price Negotiation

The following reconstruction of negotiations is substantiated by noted correspondence and supports our judgment that we will be receiving the best delivery, quality, and price for white pocketed T's over a two year period, 1993 thru 1994, @ \$2.92 for 20MM.

- In April '92 FOTL was contacted and asked to consider an annual contract price for 8MM pocketed T's.
- FOTL response of June 23, outlines pricing for last quarter '92 at \$2.80 a shirt - capacity 1,950,000; and \$2.94 a shirt in 1993 - capacity 6,090,000.
- FOTL was then asked to consider a larger quantity of 11MM. Pricing did not change but capacity increased to 2.6M available in last quarter 1992 and 8.4M available for 1993. (Their letter of July 28).
- We wanted to negotiate 1993 quantity at the 1992 price of \$2.80. FOTL was not willing to hold this price. A meeting was held in the NY office early in August to discuss our position with them. At this meeting we now asked them to consider 15MM T's - same time frame as stated previously. In their letter of September 9, pricing remained unchanged.
- On September 17, Dave Kriz, Fran Goehl, and Barbara Carter - Richmond Operation's - toured FOTL manufacturing facilities. Our observations confirmed that FOTL is a totally integrated mill from raw cotton, through spinning and weaving on to cut and sew. It was generally agreed that for the total price their quality is excellent. (Report of September 15, attached.)
- In the same time frame - June through August- several other sources were contacted for pricing and availability of T's. They compare to FOTL as follows:

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<u>Mill/Source</u>	<u>Available</u>	<u>1993 Quantity</u>	<u>Price</u>	<u>Sub-Contract</u>
Silkworm	2MM	\$3.60	. price with printing . cut & sew (est \$2.85 w/o printing)	
Ebert	2MM	\$2.85	. cut and sew	
Oneita (no pocket capacity)	2.4M	\$2.904	. other mills	
Delta	est. 4.8M	\$2.875	PO needed 10/23/92	
FOTL	15MM	\$2.94		

- * Note that all locations are not totally intergrated with the execption of Delta. They, on the other hand, do not have the capacity of FOTL. A primary objective was to find a source of T's that will be consistant for "quality throughout production" as well as "consistant pocket placement". Both conditions are necessary to minimize rejects at the point of silkscreening. (The the recommendation is to use FOTL T's as per memo of October 16).
- Our strategy after visiting FOTL was to push negotiation aggressively in order to bring down the 1993 pricing from \$2.94 (our letter to them of September 14, outlines six criteria we wanted FOTL to consider)
 - Pre-payment
 - Special terms
 - Exclusivity (they to get advertising credit in our ads)
 - Two year contract for 20MM T's
 - Synergy- to include quantity from our affiliates
- FOTL answer to our proposals addresses the added value that we receive from them and not charged separately.
 1. Philip Morris, consistently, has been buying only XL sizing but charged according to the average mill scale of 2(S), 9(M), 37(L), 52(XL).
 2. Special garment labels have been printed for PM without extra charge.
 3. PM has been receiving "on-demand" service through special manufacturing facilities that have been set aside for our requirements. (FOTL letter of September 29)

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Further, FOTL has two published price lists - and in both cases the 1993 price they are quoting PM is less.

<u>PM Price</u>	<u>Activewear Price</u>	<u>Incentive Price</u>
\$2.94 (\$35.20 a doz)	\$3.13 (\$37.56 a doz)	\$2.96 (\$35.52 a doz)
Variance of PM price to other price lists	(\$.19)	(\$.02)

Finally in early November FOTL agreed to a two year commitment plus a \$.12 per dozen freight allowance. We now have the shirt we want at \$2.92 instead of \$2.94 or (\$35.20 a dozen - \$.12 - 12 = \$2.92) This price is "locked-in" on 20MM T's for 2 years (We could project this as a cost avoidance of \$400,000 more when we find out what the list prices will be for 1994.).

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